First Monday Report

Focus on the Final Budget: "Dr. KBK or How I Learned to Stop Worrying and Love the Budget…" Part II

Issue 8, September 5, 2012

Upcoming Events:

Sept 11 Open Enrollment Health Fair
11:00 AM - 2:00 PM
The Great Hall

Sept 19 Women's Water Polo
Santa Monica/Pierce
2:30 PM
Steven C. Scholfeld Pool

Sept 22 Football
LA Southwest/Pierce
7:00 PM
Shepard Stadium

Sept 26 Red Cross Blood Drive
9:00 AM – 3:00 PM
The Great Hall

FY 2013: A Final Budget Update…

On Wednesday, August 22, 2012, the Board of Trustees approved the final budget for the District. There are a few aspects to the budget this year that are new. This article focuses on those issues, including a discussion of the various reserve balances: the Contingency Reserve, the General Reserve, and the Deferred Maintenance Funds; and, a description of the plan proposed to close the $21 million budget gap if Proposition 30 does not pass in November.

Contingency Reserve

Each year the District sets aside a 5% contingency reserve from the new revenue received from the State. These funds are reserved for emergencies during the year and may be spent with the approval of the Board of Trustees. This fiscal year the contingency reserve totals approximately $23.5 million. Due to the uncertainty of the

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Introducing Rolf Schleicher, our new Vice President of Administrative Services

Please join me in welcoming Rolf Schleicher as the newest member of Senior Staff at Pierce College, who will be joining the team on Monday, September 10, 2012. Mr. Schleicher has worked for the Los Angeles Community College District since 2010.

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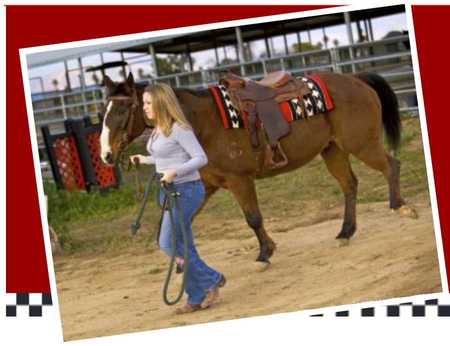

Three different reserve funds are created in the final budget.

Contingency and General Reserves and the Deferred Maintenance Reserve

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fiscal climate, the Board voted to increase the contingency reserve for FY 2013 to7.5% adding another $11.7 million. Once that decision was made, the source of these additional funds had to be determined. As explained above, annually 5% is set aside from the district allocation from the State. If the other 2.5% were to be taken from the same annual State revenue, the allocations to each college would have to be reduced accordingly. Since operational dollars for the current year are already severely constrained, the decision was made to fund the additional $11.7 million from the college reserves of East Los Angeles (ELAC) and Pierce College. ELAC contributed $10.1 million of the total. The remaining $1.6 million was taken from the Pierce College ending balances. The entire 7.5% Contingency Reserve for FY 2013 totals $35.2 million. East and Pierce have been promised that their respective reserves that contributed to the Contingency Reserve will be noted and credited back to the colleges when fiscal conditions improve.

General Reserve

What is the difference between a contingency reserve and a general reserve? A contingency reserve may be spent during the fiscal year with Board approval on unforeseen emergencies that may arise. A general reserve may not be spent during the fiscal year regardless of the circumstances. The purpose of this type of reserve is to protect the District from future unknown liabilities. When the Board of Trustees decided to set up the General

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New Vice President of Administrative Services

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Rolf received his M.B.A. in International Business from National University of San Diego and his B.S. in Business Management from California Polytechnic State University, San Luis Obispo. He also holds certifications in Project Management and Technology Management.

Throughout his career, Rolf has been involved with strategic and core functions that, for example, focused on operational efficiency and productivity; financial analysis and reporting; process improvement; cash management; and systems development and deployment, which ultimately brought order and structure to service departments; auditable policies, procedures and practices; operational reporting and support staff development.

General Reserve and Deferred Maintenance

What is the difference between a General Reserve and a Contingency Reserve? For what are the Deferred Maintenance funds used? Will the colleges be allowed to use these funds? How will a college request them?

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Reserve, they expressed their concerns not only about the current fiscal year but the continuing poor fiscal outlook for 2014. This newly established General Reserve provides the District with a cash balance for the next fiscal year should we end up needing to spend all of the FY 2013 Contingency Reserve. The Board voted to establish a General Reserve of 5% or 23.5 million.

As with the additional 2.5% of the Contingency Reserve, the District had to identify the source of the funds to set aside for General Reserve.

Once again, if we took the funds from the revenue for this fiscal year, each of the college's operating funds for the current year would be reduced further. It was decided that the funds for the General Reserve would also come primarily from the ELAC and Pierce College balances. First, the District looked to the dollars that each college had set aside in special reserve accounts. For Pierce College, these are the Metropolitan Transit Authority (MTA) funds that we initially received in 2004 for the lease of the land for the parking lot on the corner of Victory and Winnetka. This totals approximately $2.7 million. Sometime in 2005, ELAC set aside approximately $10 million of its ending balance in a Certificate of Deposit (CD) account. Over the years that CD earned interest; those funds are now valued at $11.3 million. These two funding sources total $14 million of the $23.5 million needed for the 5% reserve. Next, the current college balances were reviewed to determine if additional funds were available for the General Reserve. The goal was to leave Pierce and ELAC with at least $5 million in available balances for FY 2013. It was determined that East would contribute $3.7 million from its ending balance, and Pierce College would be assessed $590,981. This brought the total in the General Reserve to approximately $18.4 million. The remaining $5.1 million needed to reach the $23.5 million total came from district-wide undistributed balances. The actions required to fund the additional allocation to the Contingency Reserve and to create the General Reserve has left Pierce College with approximately $5.3 million in ending balance at the start of FY 2013.

Deferred Maintenance Funds

This new fun is intended for ongoing maintenance of our facilities district-wide. The Board of Trustees is concerned that there are no designated funds in the budget for this purpose. Ultimately, the Board's goal is to set aside 2.5% annually for deferred maintenance. Given the current fiscal conditions, they voted to start with a modest 0.5% in this fund. The total dollars set aside for the reserve is $2.3 million. These funds came from undistributed district-wide balances.

Like the Contingency Reserve, the deferred Maintenance Funds can be spent during FY 2013. While these funds have been set aside, the process for accessing them has not been determined. I anticipate that they may be available on a competitive basis similar to the way colleges prioritize Instructional Equipment and Library Materials (IELM) funds. We should know more on this process as the academic year progresses.

Closing the $21 Million Shortfall if Proposition 30 Fails

In addition to setting aside the two reserves and the deferred maintenance funds, the Board of Trustees acted on a proposal to close a $21 million budget gap if Proposition 30 does not pass in November. This budget gap is the result of another 7-8% budget reduction from the State due to the ongoing structural deficit in the California budget. In order to address this continuing reduction in funding, the colleges and the District Office have already identified over $25 million in reductions for FY 2013. If Proposition 30 fails, the resulting loss in revenue to the District will be $46 million, leaving a $21 million gap that must be closed.

In the adoption of the final budget, the Board of Trustees was presented with recommendations for closing the $21 million gap. The recommendations are a combination of three different actions including the following:

1) Delaying payments to the retiree unfunded liability account; 2) a one-year reduction in the Health Reimbursement Account (HRA); and 3) salary adjustments. Each of these recommendations will be discussed below.

Retiree Unfunded Liability Account (GASB 45)

The unfunded liability account may be more familiar to you as the GASB 45 payment. The District was required to fund Other Post-employment Benefits (OPEB) by the Government Accounting Standards Board (GASB) 45 ruling by December 31, 2006. Other post-employment benefits are those benefits covered by the employer other than pensions. In the case of LACCD, this includes the cost of lifetime medical benefits. There are three ways that this federal mandate may be met: 1) establish and fund an irrevocable trust; 2) pay-as- you-go; or 3) set aside a dedicated reserve for this purpose. Since the OPEB liability for the District is high, options two and three above are not feasible.

You may recall a number of years ago, the unions and the district negotiated a raise that was 1.93% less than the Cost of Living Adjustment (COLA) for that fiscal year with the agreement that the 1.93% would be used to fund the OPEB obligation. Based on this agreement, the District contributes approximately $5.2 million annually to an irrevocable trust to fund the OPEB obligation in accordance with GASB 45 requirements. One of the "closing the gap" recommendations made to the Board was to suspend for one year the $5.2 million dollar contribution to the trust fund. The plus to this recommendation is it does not affect active employee or retiree salary or benefits. The downside to this strategy is that the Accrediting Commission for Community and Junior Colleges (ACCJC) monitors districts' compliance with GASB 45 as a part of overall fiscal viability. Since Pierce College has its comprehensive accreditation visit scheduled for this academic year, there is a risk that we may get a recommendation regarding this mandated contribution should it be suspended.

Health Reimbursement Account (HRA)

If you were an employee of the LACCD in 2009, you will recall that we switched health care providers from Blue Shield of California to the Public Employee Retirement System (PERS) health care arm, PERS Care. This negotiated change involved an increase in the out-of-pocket costs for some healthcare plans. To offset the increased employee costs, the District and the unions negotiated the HRA account that credits each employee with $1500 per year to assist with the costs of healthcare services. The District budgets $6 million per year to fund this benefit.

The recommendation to the Board is that the District fund $3 million of the HRA benefit rather than the full $6 million for FY 2013 if Prop 30 does not pass. This would not affect any funds that you may have saved in

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If Prop 30 fails in November…

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your personal HRA with the District. It would mean that each employee would only receive $750 in his or her HRA in January rather than the usual $1500. Because the HRA is negotiated, to enact this recommendation would require agreement on the part of all the unions.

Salary Adjustments

The Board accepted three different recommendations related to salary adjustments for FY 2013 should Prop 30 fail to get over 50% of the vote on November 6. These recommendations were tailored to the different employee groups: 1) faculty; 2) classified; and 3) administrators. Each will be discussed below.

Faculty

After discussions with the Budget Task Force assembled at Chancellor La Vista's request to advise him, and a presentation and discussion at the District Budget Committee (DBC), it was recommended that the full-time faculty take a 3% reduction in salary and that all adjunct assignments have a 1% reduction. This proposal related to adjunct teaching would apply to all full-time faculty teaching an hourly overload assignment. Naturally, these recommendations are subject to negotiations. You may be curious about how the recommendation for these particular percentages were determined. Attention was given to progressivity in the various proposals with those who make more in salary bearing a higher burden in the reductions. If this recommendation is agreed to, the total faculty adjustment in salary would be $5.3 million.

Classified Staff

Applying the concept of progressivity to any salary adjustments in concept, the Budget Task Force and DBC recommended that the Classified Staff bare the smallest share of any reductions. There are two proposals related to the Classified Staff. The first is a recommendation for a 7.5 day furlough. A second proposal is to reduce the number of paid holidays from 15.5 to 9.5 days. Again, any change in compensation would have to be negotiated through the appropriate employee representative.

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Pierce College Supply Budget Procedures for FY 2013

As we have already established in this issue of the First Monthly Report (FMR), FY 2013 is a most difficult financial situation. In the process of preparing our college budget this year, we were required to reduce FY 2013 expenditures by 6%. You are already aware of the many

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Salary Adjustments...

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Administrators

As with the Classified Staff, there are two proposals for salary adjustments related to the administrative staff. These recommendations parallel the Classified Staff proposals. The first is for a 7.5 day furlough. The length of the furlough recommendation is the same as the proposal for the Classified Staff because Classified Staff cannot work without administrative supervision. The second proposal, in keeping with the concept of progressivity, recommends that administrators be paid for only 5.5 holidays, a reduction of 10 paid holidays. While no negotiation of the final proposal is required for vice presidents and above, the deans are members of the Teamsters and their salary adjustments are subject to negotiations. The 7.5 day furlough of both Classified Staff and Administrators would generate $5.2 million in savings; the reduction in holiday pay for both Classified Staff and Administrators would save just under $4.7 million.

SUMMARY

These proposed salary adjustments total between $18.2 and $18.7 million. It was recommended to the Board that the remaining gap of #2.3 to $3 million be taken from the undistributed district-wide reserves. As part of the overall reduction package, it is proposed that the remaining dollars come from the undistributed district-wide balances. As we move forward through the fall semester, it is important to remember that these recommendations will only be necessary if Proposition 30 does not pass. However we will not know the outcome of that vote until November, but we cannot wait until then to prepare for this worst case fiscal scenario. It is likely that negotiations will begin this fall to prepare for the agreed upon option to be enacted by January 2013. Please stay tuned to future FMRs for updates on these recommendations and any actions taken by the Board of Trustees to approve these actions.

Supply Budget Procedures for FY 2013

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services we have reduced in order to meet this target. As stated above, the 6% reduction for the colleges and the District Office added up to over $25 million in savings. If we had not achieved this level of reduction, the projected $21 million gap would be larger and require additional concessions related to employee salaries if Proposition 30 fails to be approved.

In order to achieve our 6% savings, we were only able to budget $150,000 in supplies for the entire academic year. While we are looking for another $50,000 to augment this meager allocation for supplies, we need to ensure that we do not overspend the available dollars we have allocated to this budget line. Any request for supplies that will be charged to the consolidated Unrestricted General Fund (UGF) supplies account must be reviewed and endorsed by the department chair and the supervising dean or area manager and sent forward for approval to Senior Staff. In order to facilitate smooth operation of the college, it is the goal of Senior Staff to review these requests every week and publish the decisions to the requestor. These are the only supply requests that require formal approval by Senior Staff.

Supply requests that are charged to special funds such as grants or categorical funds are reported to Senior Staff on a weekly basis for information but not for approval. The difference in procedure for these accounts is that the charges do not affect the UGF supply account that is held to the 6% reduction standard. We are requiring that these expenditures be reviewed on a weekly basis to ensure that the funds are not overspent because any excess expenditure in these funds would hit the UGF at the end of the fiscal year. Since our UGF funds are curtailed this fiscal year, we need to ensure that there are no surprises as we close out the year. If you have any questions about these procedures, please consult with your supervising dean or supervisor.